KENTUCKY PUBLIC EMPLOYEES' DEFERRED COMPENSATION AUTHORITY

SECURING A BETTER TOMORROW

Newsletter

OCTOBER 2002

Join us on the "WEB" at: www.kentuckydcp.com or http:\\personnel.ky.gov\dcomp.htm
or email us at: persdeferredcomp@mail.state.ky.us
Telephone number: (502) 573-7925 or (800) 542-2667
Fax number: (502) 573-4494
Nationwide® Retirement Solutions (NRS)
Web-Site Help Center: (800) 653-4632
Our address:
105 Sea Hero Road, Suite 1
Frankfort, Kentucky 40601-8862

Timing is not on your side

Some investors like to time the market, essentially guess when stocks and mutual funds are going to rise and get in just ahead of it.

The challenge is to know when to get out and then when to get back in. Not just once, but every time the market moves. Switching funds too often, combined with mistakes in market timing, can result in buying high and selling low.

The smart money says base your investment decisions on your goals and time horizon rather than trying to catch quick gains in the market.

Even if you're just a few years away, or you're already in retirement, one of our Marketing Representatives can assist as you prepare or revise your investment strategy and manage your account for and during retirement.

As always, information they provide is for educational purposes and not intended as investment advice.

So, rather than trying to time the market, take a little time to talk with one of our Marketing Representatives. We have the time for you!

Call toll-free at 1.800.542.2667.

The Effect of Staying Invested vs. Missing Top-Performing Days for Domestic Stocks,1991-2001

Missing the market's top-performing days can prove costly. This chart shows how a $10,000 investment would have been affected by missing the market's top-performing days over the 10-year period from December 31,1991, to December 31, 2001. For example,an individual who remained invested for the entire time period would have accumulated $33,754, while an investor who missed just five of the top-performing days during that period would have accumulated only $26,613.

Investing involves market risk including the possible loss of principal. The historical performance of any unmanaged index is not indicative of the performance of a particular investment and does not take into consideration the fees and expenses associated with purchasing securities. If fees and expenses were included, the performance would have been lower. Individuals cannot directly invest in an index.

Source: ChartSource, Standard & Poor's Financial Communications. Stocks are represented by Standard & Poor's Composite Index of 500 Stocks, an unmanaged index that is generally considered representative of the U.S. stock market.

Past performance is no guarantee of future results.

Fixed Contract Fund Rate

A blended net crediting rate that will yield 4.70% will be credited for the Fourth Quarter of 2002. The rate was 5.05% for the previous quarter.

Fund Spotlight

For information only – NOT a recommendation for investment

Vanguard Mid-Cap Index Fund (Admiral Shares)

Investment Objective

Vanguard Mid-Cap Index Fund seeks long-term growth of capital.

Investment Strategy

The fund attempts to match the performance of the Standard and Poor's MidCap 400 Index, an unmanaged index of mid-capitalization U.S. stocks. The fund holds all 400 stocks in the index in the same proportions as those stocks represent in the index. It remains fully invested in stocks at all times; the fund's management does not speculate on the direction of the index.

Though the fund seeks to match the index, its performance typically can be expected to fall short of by a small margin representing operating costs.

Who Should Invest

- Investors seeking long-term growth of capital
- Investors seeking a simple, low-cost way to invest in mid-capitalization stocks
- Investors with a long-term investment horizon (at least five years).

Who Should Not Invest

- Investors unwilling to accept significant fluctuations in share price
- Investors seeking significant dividend income
- Investors seeking broad exposure to the stock market.

Expenses: 0.20% as of 12-31-01
Ticker Symbol: VIMAX
Newspaper Listing: MidCpAdml
Inception: November 12, 2001

Conservative		Moderate		Aggressive
1	2	3	4	5

The Mid-Cap Index Fund holds stocks of mid-sized companies, which historically have been more volatile in price than large company stocks. As a result, the fund carries a higher level of risk than most funds that hold larger stocks.

Annual Investment Returns

Mid-Cap Index Fund Adm Total Return	S&P MidCap 400 Index Total Return
8.06%	8.99%

Equity Sector Diversification

(as of 03/31/02)

Consumer Durable	3.8%
Consumer Staples	4.8%
Energy	6.8%
Financials	18.4%
Health	11.7%
Industrial Cyclicals	10.3%
Retail	4.5%
Services	15.8%
Technology	17.8%
Utilities	6.1%

Largest Stock Holdings

(as of 06/31/02)

M & T Bank Corp
IDEC Pharmaceuticals Corp.
Affiliated Computer Services, Inc., Class A
Washington Post Co., Class B
Gilead Sciences, Inc
Quest Diagnostics, Inc.
National Commerce financial Corp
R.J. Reynolds Tobacco Holdings, Inc.
Weatherford International Ltd.
Green Point Financial Corp.

Top Ten as % of Total Net Assets 8.0%
(as of 06/31/02)

All Information as of June 30, 2002. For more in-depth information on any fund offered through Kentucky Public Employees' Deferred Compensation Authority, please read the fund Prospectus.

Board Actions Taken On August 21, 2002

In an effort to reduce administrative costs, Authority staff recommended and the Board of Trustees approved the following actions to be effective *September 1, 2002:*

1) Eliminate and refund inactive (no deferrals for two years or longer) participant accounts in both the 457 and 401(k) Plan, whenever the total account balance per Plan is less than $100. This process will be automatic for such accounts in the 457 Plan. For such 401(k) accounts a verification of employment termination will be required. For additional information please contact the Authority's Payout Branch.

2) Begin assessing a $175 fee to those participants who have participated in the program (457 or 401(k) Plan) less than 2 years and request a transfer/rollover of assets out of this program for reasons other than a general termination of employment. Setting up an account is an expensive procedure, and because these participants are with the Authority for only a short period of time such expenses must be borne by our long-term, faithful participants. Staff felt strongly, and the Board agreed, it was inappropriate for those long-term dedicated participants to continue absorbing this cost. Therefore, the $175 transaction fee as outlined above is now in effect.

The Authority's Board of Trustees approved the following changes to the Watch List:

Removed Putnam Investors (due to improved 1 year performance)

Added INVESCO Small Company Growth Fund (Investor Class) and Dreyfus Premier Third Century Fund (Class A) Retained Munder NetNet Fund (Class A).

In general terms, placement of a fund on the Watch List indicates that fund has underperformed its peer group on both a three year and one year basis. For additional information on any fund offered through the Authority, please contact the Nationwide Retirement Solutions Marketing Unit at 800.542.2667, in Frankfort: 573.7925.

Retirement

Making the dream a reality!

So, you want to retire; well, you have 2 choices—dream about it—-or do it! Because most of you reading this Newsletter are members of Kentucky Deferred Comp, I am going to assume that you are serious, and by serious, I mean willing to work!

Now, I hear you – you want to retire, not work. Well, you need to realize that for many Americans retirement simply means leaving one job for another. Now such a move may be well-thought-out and planned and made with great anticipation; perhaps in addition to doing your state job for 27 years, you have always wanted to run your own business, say a quaint little antique shop. If so, wonderful – and more power to you. Or, you may simply wake up a few months into retirement and find that your expenditures are more than your retirement income. If so, Wal-Mart is usually looking for greeters.

Clearly, the point I am trying to make is – you need to plan. Statistics show us without question that Americans are doing 2 things today in the retirement arena – 1) Retiring earlier, and 2) Living Longer.

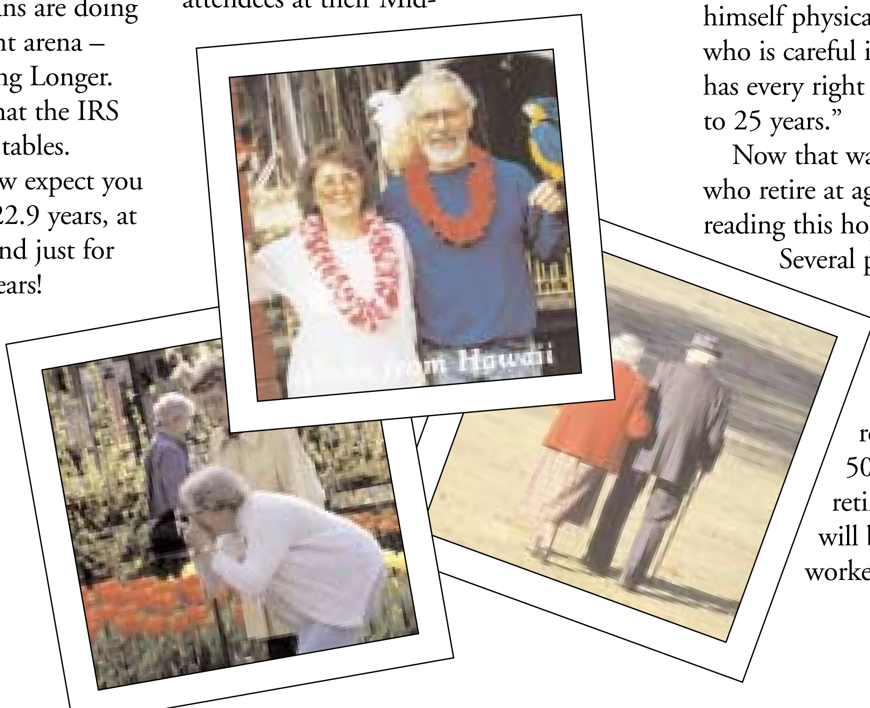
How long? Long enough that the IRS has just updated the longevity tables. When you are age 70, they now expect you to live for 27.4 years, at 75 – 22.9 years, at 80 – still another 18.7 years, and just for fun – at age 90 – 11.4 more years! Now don't trust me on these tables – check with your CPA, or locate a copy of the April 23 edition of USA Today – that's where I pulled the stats I just quoted.

Many of you personally know someone who is at least 90 years of age, and perhaps even 100. Longevity may run in your family. One of my grandfathers lived to 96, with one of my grandmothers surviving well into her 90's. I need to factor this longevity into my retirement planning, and you may too.

Statistics show us without question that Americans are doing two things today in the retirement arena – 1) retiring earlier, and 2) living longer.

Americans are growing older at a greater rate than ever before. A few years ago the fastest growing segment of the American population on a per capita basis was the "over 80" group, today it is the over 100 folks.

A colleague of mine from Teacher's Retirement has a printout he show the attendees at their Mid-Career seminars. It shows the people age 95 and older who are still receiving a monthly check from KTRS, and there are well over 100 of these individuals. Furthermore, at last report, another 17 folks over 100 years old were still receiving an annuity check every single month from Teachers Retirement, and I would guess that Kentucky Retirement Systems could produce a similar report.



In his book, *Retirement Choices for the time of your life*, John Howells states unequivocally, "The fact is people are living longer and longer. According to the insurance companies, a person retiring at the age of 62 has an average life expectancy of another 19 or 20 years. This includes those who die from automobile accidents, too much booze and cigarettes or being shot by jealous lovers…. Therefore, a person of retirement age who takes care of himself physically, drives cautiously and who is careful in his or her choice of lovers has every right to plan on living another 20 to 25 years."

Now that was written about those people who retire at age 62. How many of you reading this hope to retire before 62? Several people I know have retired before age 52 (my wife for one). I suspect that with the ability to "buy time" certain individuals may well retire at 42. They may have 50 years or more to live in retirement! Many of us, in fact, will be retired longer than we worked. For many of you

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Fun Facts

As of June 30, 2002 there were 57,339 participants in the Kentucky Public Employees' Deferred Compensation program.

The average monthly deferral amount is $175.42 per active Participant.

Between April 1 and June 30 of this year, 2,639 participants increased their deferral amount.

There were 61,380 visits to the Deferred Comp Website (www.kentuckydcp.com) during the second quarter of 2002.

The Authority assisted 1,110 in office visitors during the second quarter of 2002.

Did You Know?

You may make an Exchange, move money from one fund to another, as often as you like. Changes made before 4:00 p.m. EST are effective that same day.

You are NOT charged a fee for making changes to your account (regardless of the number of changes you make).

It takes approximately 2 pay periods before a change in the amount you are contributing to your Deferred Compensation account becomes effective.

For the calendar year 2003, you may defer up to $12,000 in both the 457 Plan and 401(k) Plan. If you are age 50 or older, you may defer up to $14,000 next year in each Plan by using the new Age 50 Catch-up feature.

Retiring state employees can save thousands of dollars in Federal and State taxes by depositing their annual and comp time payments into their deferred compensation account. Simply call our office at least 60 days ahead of your scheduled retirement date to fill out the paperwork. While we can't defer your entire check (certain withholdings like FICA and taxes on those withholdings must be taken) and you must receive at least a nominal check), we can help you shelter thousands of dollars from state and federal income taxes.

If you are trying to log onto our website but have forgotten your password, you may call 800.653.4632 to have your password reset.

Retirement

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retirement will be the largest single segment of your life. Can you afford it? Have you planned (financially, emotionally, etc.) for 20, 30, or 40 of the "golden years"? If not, you need to start… NOW!!! One of the best ways to "transition" is to make a long-term financial plan for retirement, including a strong commitment to your Deferred Comp plan, that you can move to gradually over the next several years. Retirement is a major life change-make sure you are ready, and that you can afford it.

Consider this: According to a recent Retire Early Home Page (www.geocities.com/wallstreet/8257), for a comfortable and sustainable retirement you'll need $200,000 to $250,000 in retirement funds for every $10,000 in annual pre-retirement income. That means a $1 million nest egg will support a $35,000 to $50,000 per year lifestyle at an 8% rate of return until age ninety. A $500,000 kitty could support a retirement income of $20,000 to $25,000. You can, of course, make life style adjustments so that you need less money to live on a smaller nest egg. The question to ask yourself then becomes, do you really want to make such adjustments.

Perhaps, a better question to consider is, how much is enough? Many experts recommend that we save enough to replace between 70% and 90% of our take home pay. Obviously, the percentages will differ based on the lifestyle you plan to lead, whether you want to travel or sit in a rocking chair and watch TV, whether you will work part-time (or full-time?) or not, whether or not your house, car, etc. are paid for, where you want to live, your health and that of your spouse or significant other. You get the idea, I'm sure.

As for me, I want to replace 100% of my income. Now that may not work for you. Like so much of life, the ultimate decision is up to you. There are literally dozens of retirement planning calculators available to you. Many are free, often easily accessed via the Internet. Kentucky Deferred Comp has one on our web-site: www.kentuckydcp.com, and you can easily find others. Just go to a search engine, like webcrawler, and type in a key word, like retirement.

All of us want to retire, but you can divide us into 2 groups: 1) those who plan (and save for) for Retirement, and 2) those who don't. Now clearly, if we want to be certain of a financially, emotionally, and physically sound retirement, each of us wants to be in the first group. However, my experience shows that many Americans spend more time each year planning their vacation than they do thinking about their retirement.

We also spend far more than we save. The June 22, 2002 issue of the Lexington Herald Leader reported that the savings rate percentage for Americans in 1992 was 8.7%, in 2001 it had fallen to 1.6%.

Ask yourself what your savings rate is. When was the last time you increased your Deferred Compensation deferral? Deferred Compensation is the easy (payroll deduction) tax-sheltered way to invest for retirement. My collegues at Kentucky Deferred and I are always glad to discuss any aspect of Deferred Comp with you. Please give us a call or stop by and see if we can ever be of service. Oh, by the way, I finally got around to doing my own increase for 2002 – in August.

– Written by Chris Helvey, Principal Assistant II Kentucky Public Employees' Deferred Compensation Authority

(Chris is a long-time supporter of Deferred Compensation. He has worked for and participated in the Authority's Plans since the mid-1980's.)